

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07  
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02  
CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02 L-03  
NSC-05 PA-02 PRS-01 SS-15 /109 W  
-----111848Z 007525 /44

R 111731Z JAN 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4598  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 00542

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A  
TAGS: EFIN, GW  
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JANUARY  
10)

REF.: BONN 21678 AS OF DEC.28, 1976; BONN 146; BONN  
385

1. FOREIGN EXCHANGE MARKET:  
THE ANNOUNCEMENT OF PRESIDENT-ELECT CARTER'S ECONOMIC  
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STIMULATION PROGRAM COUPLED WITH INTEREST RATE DEVELOP-  
MENTS FAVORING THE DOLLAR PRECIPITATED A DRAMATIC  
STRENGTHENING OF THE DOLLAR ON GERMAN FOREIGN EXCHANGE  
MARKETS DURING THE PAST TWO WORKING DAYS. FROM THE  
FIXING ON FRIDAY, JANUARY 7 TO TUESDAY, JANUARY 11,  
THE DOLLAR APPRECIATED 1.1 PERCENT AGAINST THE DEUTSCHE-  
MARK. FOR THE WEEK AS A WHOLE THE STRENGTHENING

AMOUNTED TO ALMOST 1.8 PERCENT. DAILY FRANKFURT AND FORWARD DOLLAR RATES DURING THE REPORTING PERIOD WERE AS FOLLOWS:

|       | FORWARD DOLLARS                  |        |         |           |           |  |
|-------|----------------------------------|--------|---------|-----------|-----------|--|
|       | SPOT DOLLARS (IN PCT. PER ANNUM) |        |         |           |           |  |
|       | OPENING                          | FIXING | CLOSING | ONE-MONTH | THREE-MOS |  |
| JAN 4 | 2.3410                           | 2.3403 | 2.3440  | -0.4      | -0.5      |  |
| 5     | 2.3450                           | 2.3475 | 2.3500  | -0.4      | -0.5      |  |
| 6     | 2.3510                           | 2.3497 | 2.3510  | -0.1      | -0.3      |  |
| 7     | 2.3530                           | 2.3570 | 2.3640  | -0.5      | -0.4      |  |
| 10    | 2.3715                           | 2.3780 | 2.3825  | -0.4      | -0.5      |  |
| 11    | 2.3825                           | 2.3823 | N.A.    | N.A.      | N.A.      |  |

## 2. KEY ECONOMIC DOCUMENTS SCHEDULED TO BE RELEASED AT MONTH'S END:

ACCORDING TO CURRENT FINANCE MINISTRY PLANS, THE GOVERNMENT WILL PROBABLY PROPOSE TO LEGISLATORS A DM 171.8 BILLION FEDERAL BUDGET FOR 1977. THIS IS DM 1.4 BILLION LESS THAN THE DM 173.2 BILLION EXPENDITURE LEVEL ENVISAGED EARLIER THIS YEAR. CABINET APPROVAL OF THE DRAFT BUDGET IS EXPECTED JANUARY 27/28, AT WHICH TIME THERE WILL LIKELY BE MORE DETAILED INFORMATION AVAILABLE. AS WELL, ON THIS DATE, THE NEW MEDIUM-TERM FINANCIAL PLAN IS SCHEDULED FOR CABINET CONSIDERATIONS. ALSO, THE GOVERNMENT'S ANNUAL ECONOMIC REPORT IS CURRENTLY EXPECTED TO BE PUBLISHED ON/OR ABOUT THE SAME DATE. THIS DOCUMENT REPORTEDLY WILL CONTAIN PRO-UNCLASSIFIED

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VISIONS FOR A LONGER TERM "INFRASTRUCTURE PROGRAM" OF INVESTMENT-TYPE  
FEDERAL OUTLAYS IN ADDITION TO THOSE CONTAINED IN THE BUDGET. IT IS SUPPOSED TO BE A RESPONSE TO THE CALL FOR MORE ECONOMIC STIMULATION. IT IS CURRENTLY RUMORED THAT IT IS A 3-4 YEAR PROGRAM IN THE AMOUNT OF DM 10 BILLION, WITH DM 2-3 BILLION TO BE SPENT IN 1977. PROJECTS RUMORED AS PART OF THIS PROGRAM INCLUDE SUCH THINGS AS RHINE RIVER PURIFICATION, DEEPENING OF THE ELBE RIVER, ETC.

## 3. MONEY MARKET:

CALL MONEY RATES CONTINUED TIGHT IN THE FRG DURING THE WEEK UNDER REVIEW. GOVERNMENT DEMAND FOR FUNDS PLAYED AN IMPORTANT ROLE IN THIS REGARD AS PAYMENTS FOR THE DM 1 BILLION GOVERNMENT LOAN ISSUED IN LATE DECEMBER FELL DUE DURING THE FIRST WEEK OF JANUARY AND IN ADDITION THE FEDERAL GOVERNMENT RAISED AN ADDITIONAL DM 1.5 BILLION IN THE PAST WEEK THROUGH SALES OF PRE-

MISSORY NOTES. OTHER FACTORS CONTRIBUTING TO TIGHT  
CONDITIONS ON GERMAN MONEY MARKETS ARE EXPECTATIONS OF  
A SUBSTANTIAL INCREASE IN MINIMUM RESERVE REQUIREMENTS  
FOR JANUARY AND A MINOR TAX DATE UPCOMING ON THE 15TH.  
IN CONTRAST TO CALL MONEY CONDITIONS, ONE AND THREE

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INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07  
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06 SP-02  
CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02 L-03  
NSC-05 PA-02 PRS-01 SS-15 /109 W  
-----111848Z 007575 /44

R 111731Z JAN 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4599  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
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MONTH RATES EASED CONSIDERABLY DURING THE PAST WEEK.  
CURRENTLY, IN FACT, ONE AND THREE MONEY RATES ARE ONLY  
MARGINALLY HIGHER THAN THAT FOR CALL MONEY. DURING THE  
REPORTING PERIOD, FRANKFURT INTER-BANK MONEY RATES  
DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH

|       |         |      |      |
|-------|---------|------|------|
| JAN 3 | 4.5-4.7 | 5.10 | 5.00 |
| 4     | 4.5-4.6 | 4.70 | 4.80 |

5 4.4-4.5 4.60 4.70  
6 4.4-4.6 4.60 4.70

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7 4.5-4.7 4.70 4.75  
10 4.5-4.7 4.70 4.75

#### 4. CAPITAL MARKETS:

THE CONSIDERABLE PRICE INCREASES WHICH PREVAILED ON GERMAN STOCK AND BOND MARKETS AT THE BEGINNING OF THE NEW YEAR CONTINUED DURING THE WEEK UNDER PREVIEW. IN THE PERIOD JANUARY 4-10 GERMAN STOCK PRICES ROSE BY ALMOST 2 PERCENT SO THAT THEY HAVE INCREASED BY ALMOST 3 PERCENT SINCE THE YEAR-END. BOND PRICES ALSO CONTINUED TO INCREASE SUBSTANTIALLY BUT ON JANUARY 10 PRICE INCREASES SLOWED DOWN SOMEWHAT. THE TWO 7 AND 7 1/4 PERCENT TRANCHES OF THE LAST FEDERAL LOAN (SEE BONN 21678) OFFERED ON DECEMBER 29 AT ISSUE PRICES OF 100 AND 99.50 ARE CURRENTLY TRADING AT 100, 70 AND 100.20; RESPECTIVELY. ACCORDING TO THE PRESS AVERAGE CURRENT YIELDS OF DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY ARE AS FOLLOWS:

#### REMAINING MATURITY

(YEARS) 1 3 5 7 9 10

#### YIELD TO MATURITY

|        |      |      |      |      |      |      |
|--------|------|------|------|------|------|------|
| JAN 7  | 5.15 | 6.45 | 6.90 | 7.10 | 7.25 | 7.35 |
| DEC 23 | 5.20 | 6.65 | 7.10 | 7.25 | 7.45 | 7.55 |

IN VIEW OF THE VERY FAVORABLE CONDITIONS PREVAILING ON THE MARKET FOR DOMESTIC BONDS THE FEDERAL GOVERNMENT REPORTEDLY OFFERED SCHULDSCHNEINE (PROMISSORY NOTES) WITH MATURITIES RANGING FROM 6 TO 10 YEARS AND CARRYING EFFECTIVE YIELDS OF 7.00 PERCENT TO 7.35 PERCENT. HOWEVER, DUE TO THE VERY HEAVY DEMAND THE GOVERNMENT RATHER SOON DISCONTINUED ITS OFFER. IT IS ESTIMATED THAT ABOUT DM 1.5 BILLION OF SUCH PAPER WAS SOLD. ON THE MARKET FOR FOREIGN DM BONDS THE AUSTRIAN CONTROL BANK HAS PRIVATELY PLACED BONDS OF DM 50 MILLION CARRYING A 7 PERCENT COUPON AND A MATURITY OF 7 YEARS. THE

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JAPANESE SANKO STEAMSHIP COMPANY LTD. WILL OFFER A DM 100 MILLION LOAN. CONDITIONS ARE EXPECTED TO BE A COUPON OF 7 PERCENT, A MATURITY OF 7 YEARS AND AN ISSUE PRICE SLIGHTLY BELOW PAR. FOR THE REMAINDER OF JANUARY

FOREIGN DM LOANS OF ANOTHER DM 800 MILLION  
ARE EXPECTED.

5. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

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INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-07  
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CIEP-02 LAB-04 SIL-01 OMB-01 DODE-00 PM-04 H-02 L-03  
NSC-05 PA-02 PRS-01 SS-15 /109 W  
-----111849Z 007826 /44

R 111753Z JAN 77  
FM AMEMBASSY BONN  
TO SECSTATE WASHDC 4600  
DEPARTMENT TREASURY  
INFO AMEMBASSY BERN  
AMEMBASSY BRUSSELS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMEMBASSY TOKYO  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
AMCONSUL FRANKFURT

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THE LATEST BUSINESS SURVEY DATA OF THE IFO ECONOMIC  
RESEARCH INSTITUTE (COVERING NOVEMBER 1976) ARE NOT  
PARTICULARLY ENCOURAGING. THE MARGIN OF RESPONDENTS  
WHO THOUGHT THAT THE CURRENT SITUATION WAS POOR OVER  
THOSE THAT CHARACTERIZED IT AS BEING GOOD CONTINUED TO  
INCH UPWARDS, I.E., FROM 11 PERCENT IN SEPTEMBER TO  
13 PERCENT IN OCTOBER AND TO 14 PERCENT IN NOVEMBER. AS  
REGARDS EXPECTATIONS FOR THE NEXT SIX MONTHS, APPRAISALS  
ALSO CONTINUED TO WORSEN. WHEREAS IN EARLY 1976 AND  
THROUGH JULY THE NUMBER OF FIRMS EXPECTING A PICK-UP OF  
BUSINESS HAD EXCEEDED THE PESSIMISTIC RESPONDENTS,

THE OPPOSITE TREND HAS PREVAILED SINCE, WITH THE NEGA-  
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TIVE MARGIN RISING FROM 1 PERCENT IN AUGUST TO 9 PERCENT  
IN OCTOBER AND DROPPING ONLY SLIGHTLY TO PERCENT  
IN NOVEMBER. AS SUGGESTED IN BONN 146, THE PACE OF  
CONSUMER PRICES HAS REACCELERATED AT YEAR'S END. THE  
OFFICIAL INDEX FOR DECEMBER 1976 SHOWS AN INCREASE OF  
LIVING COSTS OVER DECEMBER 1975 LEVELS BY 3.9 PERCENT;  
IN OCTOBER AND NOVEMBER THE YEAR-OVER-YEAR RATE OF  
INCREASE CAME TO 3.8 PERCENT AND 3.7 PERCENT, RESPEC-  
TIVELY. FIRST OFFICIAL ESTIMATES OF THE FRG'S GNP IN  
1976 ARE CONTAINED IN BONN 385, ALONG WITH INDUSTRIAL  
ORDER AND PRODUCTION DATA FOR NOVEMBER AND UNEMPLOYMENT  
FIGURES FOR DECEMBER 1976.  
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## Message Attributes

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**Concepts:** DOCUMENTS, ECONOMIC TRENDS, FOREIGN EXCHANGE, CAPITAL FLOWS  
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**Copy:** SINGLE  
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**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
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**Disposition History:** n/a  
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**Litigation History:**  
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**Office:** ACTION EUR  
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**Original Previous Classification:** n/a  
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**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
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**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3628667  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FINANCIAL DEVELOPMENTS (WEEK ENDING JANUARY 10)  
**TAGS:** EFIN, GE, (CARTER, JIMMY)  
**To:** STATE TRSY  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/e8212fdb-c288-dd11-92da-001cc4696bcc  
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